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LEARNING THROUGH LOANS

A SUGGESTED 4-H
CLUB CREDIT GUIDE



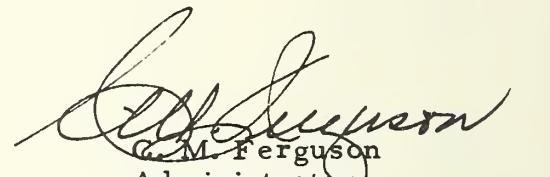
FEDERAL EXTENSION SERVICE
U.S. DEPT. of AGRICULTURE
WASHINGTON, D.C.

PREFACE

"Learning From Loans" is what its title says "A Suggested 4-H Club Credit Guide". Its purpose is to help you provide extension agents and adult leaders with a summary of usable suggestions for their work with 4-H members and young men and women groups. You will find this circular packed full of ideas on what can be done in credit work with young people which you can adapt and issue for use in your State.

You may choose to use this credit information, plans, and aids in at least two ways. For example, you will find here some helpful suggestions on how older 4-H Club members may use good, approved credit practices in conducting their production projects in swine, poultry, dairying, home economics, and others. While they are "learning to do" with production skills, they may go through "learning by doing" procedures on use of credit and other management practices. Also, you may provide an opportunity for a group of young people to work together, make a study of credit, and follow a series of activities which give a first hand experience on the use of credit.

Earlier drafts of this circular have been reviewed by staff members of the Divisions of Agricultural Economics and 4-H and Y&MW of the Federal Extension Service, by similar state extension service staff members in California, Michigan, Kansas, and Oklahoma, and by economists on the central staffs of the American Bankers Association and the Farm Credit Administration. Your banks and associations in these credit systems will be a great resource in your program when the study and use of credit by young people is involved.



C. M. Ferguson
Administrator
Federal Extension Service

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LEARNING FROM LOANS

A SUGGESTED 4-H CLUB CREDIT GUIDE

30
by James L. Robinson¹

INTRODUCTION

Many of your 4-H members are using credit. They get loans to carry on their production projects, sometimes to take part in other activities, and perhaps more frequently to buy personal items. Members of 4-H clubs most often go in debt to parents, but they also buy on credit from stores. Many borrow money from banks and other lenders. In borrowing, they have another opportunity to "learn to do by doing." What the member learns about handling credit may prove of more value in later life than the production practices used, particularly if he chooses a career in industry, banking, or a farm related business.

DEBTS TO PARENTS

The most important feature of the money and credit dealings between your 4-H members and their parents is for them to reach a definite business understanding. This is true as to any regular weekly or monthly allowances, as to their school or other expenses, and on the 4-H projects they carry on.



Figure 1. 4-H members and their parents reach a definite understanding on business matters.

A real business understanding is particularly important for 4-H production enterprises. Just how large shall the undertaking be, what shall be put into it by members and by parents, and how will the 4-H'er pay for land, tools, or other contributions in kind made by the parent?

For the money advanced by the parent a note may be filled out and signed by the

member. The due date should be carefully set for a time when the member is reasonably sure of having the money to repay.

Using a note in connection with such an agreement between parent and member follows a standard business practice on loans. It also provides an opportunity to familiarize the young person with the note as a credit instrument, a simple form of contract.

BUYING ON CREDIT

Some of your 4-H Club members may be getting credit from stores to buy things they need or desire. In many cases these goods are for personal use. In other cases such purchases may be for production supplies such as seed, fertilizer, feed, and other things needed for their 4-H projects. Ordinarily the dealer has assurance or at least is confident the parent will pay if the young person fails to do so. Here too there should be an understanding, but this time among all three parties.

The needed emphasis here should be on limiting all such credit purchases to what the 4-H member can pay for out of a fairly well assured income. Installment purchases may be justified and be good learning experiences if regular weekly or monthly income from a job, an enterprise, or an allowance can be counted on by the young person.

Sometimes individuals, usually livestock breeders, will make credit sales of animals to 4-H'ers for their livestock project. Here is another place where the formal note and usually the chattel mortgage should be used and the lessons associated with them be learned.

LOANS FROM CREDIT AGENCIES

The greatest opportunity for 4-H credit education, however, is associated with loans the members obtain from banks, production credit associations, and other firms whose business is lending. They use such credit almost altogether for production enterprises from which they expect to obtain cash income. Here you may lead the 4-H member through most or all the steps normally taken

¹Economist, Federal Extension Service

in getting, using, and repaying a loan. These may include:

1. Making a plan (budget) for his project that shows what he will need to spend and how much money he expects to get out of it or from other income.
2. Explaining this plan in a visit and talk with the lender. This step may include filling out a loan application form.
3. Working out with this lender the amount and other terms of the loan such as time and dates, interest rate, security, and like details.
4. Signing the promissory note for the loan, and the chattel mortgage where suitable. Frequently a parent or other cosignor will be required. Sometimes an insurance policy on crop or live-stock may be added.
5. Using the money according to the plan agreed upon. This also means (a) making an all-out effort to succeed with the project, (b) taking particular care of any mortgaged chattels, and (c) making a good sale of the product.
6. Paying off the loan on or before the due date. In case circumstances make this impossible, going to see the lender ahead of time and telling him just what the situation is and when payment can be made.

In addition to the significance of the note the 4-H member should become familiar with the use and meaning of the chattel mortgage, the obligation assumed by the cosignor on a note, and the advantages of building up a good credit rating when borrowing.



Figure 2. The member should explain his plan to his lender.

The 4-H member also should develop a concept of interest as the payment for the use of money, and where appropriate the protection of both borrower and lender provided by proper insurance for some of the risks being taken.

CREDIT USE AS A 4-H PROJECT

The use of credit is being made a special or complementary project for 4-H members who borrow money, particularly when it is used for their production enterprises. This recognizes credit's importance, offers an opportunity for more intensive teaching and makes a fine start in learning about the business side of farming. In these credit projects the six steps outlined under Loans from Credit Agencies is followed



Figure 3. Credit can be wisely used on production projects.

more carefully and more is put into written form. In addition to the papers already mentioned a business record on the transactions is kept and a narrative report on the use of credit is made.

An understanding of the value of the net worth statement in obtaining credit and of successive statements in measuring financial progress may be developed.

Some members need to consider the element of risk and weigh it against the hope of gain.

Some Appropriate Supporters, Incentives, and Activities

Often your banks, production credit associations and other lenders will be glad to provide incentives in connection with special 4-H credit projects. They may offer

awards for successful handling of the credit, for the best financial progress, for the winning credit record, or other features if desired.

Or you might make the top event a television appearance featuring the lender and a small group of 4-H members who have done well with their loans. The members should be led to tell what they have learned about credit. Radio interviews could be used, especially where there is no local TV.

The production credit association might like to have its most successful 4-H borrower tell about his loan at its annual stockholders' meeting and/or send him with the State's delegation to the Youth Session of the American Institute of Cooperation.

A similar story might be told before a bankers' meeting by a 4-H member a bank has financed. Then members borrowing from any source could appear before civic clubs and at community or county 4-H club and other meetings. A subject related to how he used the loan, what he learned about the lender, or how financing helped in the farm business of their families could be the topic for a talk.

A visit to one or more credit institutions can be included in a tour of local business firms serving farm people.

LENDERS' PART IN 4-H CREDIT TRAINING

The success of any 4-H credit education program depends very much on the whole-hearted cooperation of the lenders. A number of appropriate plans have been developed which fit into the points of view and ways of doing business of the more important credit agencies. Some of these are:

Commercial Banks

The most numerous and most important commercial sources of credit for 4-H members are local banks. Here we find a wide variation as to plans and terms being used. Some bankers make such loans only as a part of the loans to parents; some set up a special loan to the member negotiated through a joint interview with the parent and the member and consigned by the parent; some want the member to come into the bank on his own and make his application; some want a statement from the county extension agent as to the soundness of the project and his judgment of the individual; some are more quickly interested in financing a number of 4-H'ers who are all buying

similar animals at the same time as a cooperative buying effort; some are willing to act as purchasers and sellers who retain title to animals to strengthen their security in these multiple transactions. Many bankers are not only interested in the 4-H members' success in their farming enterprises, but also see that these members understand the basic techniques as well as the principles of the sound use of credit.

In 1951, Joe Taylor, a Mississippi 4-H Club boy borrowed \$400 from the Grenada bank to buy an Angus heifer. As with other boys in this group a business man signed the note along with Joe and his father just to show interest in the undertaking. Each boy also took out insurance on his animal equal to the loan. Joe's heifer has raised a calf every year since she became breeding age and five of them have been heifers. Joe won a comparable heifer as a premium on his first year's work and has bought a few additional animals with other funds. He now has 24 head of purebred Angus cattle. In 1954 he borrowed \$500 from the bank and in 1956 he borrowed \$400 more to use in producing feed and improving his pasture. He has paid back the money from the sale of males and heifers not good enough to breed, from prize money, and from sales of corn and hay. Joe and his father work together closely on feed and pasture production, with Joe paying his part of expenses and contributing his labor. He is now a student at Mississippi State University.

Production Credit Associations

Many production credit associations are providing credit to 4-H Club members. This ranges from financing members as an item in their father's loan to supervising a junior PCA for which the association furnish the funds.



Figure 4. Boys with adult leader help the lender decide on loans in a Junior Production Credit Association.

Most often a PCA grants credit to a 4-H'er son of an association member through an individual loan. The club member comes in and discusses his plan and fills out an application with the association's secretary or other representative. The parent's stock in the association makes the minor eligible for the loan and the father usually cosigns as security.

A junior PCA as the name implies, is a subsidiary cooperative made up of minors. It operates under the supervision of an adult advisor or sponsor. This organization usually owns stock in the parent PCA, sometimes in the name of the sponsor, has officers and a loan committee that examines and passes on loan applications. These committee members learn about lending as well as about borrowing, and something too about cooperative business principles and plans of organization.

At Marysville, Ohio, the Union County Junior Production Credit Association has been making loans since 1953 to both 4-H Club and FFA chapter members. In the 1957-58 year it made 37 loans for a total of \$16,637, the largest being \$2,390. Dennis Scheiderer, a 4-H member got the smallest loan for \$320 on November 1, 1957, for the purchase of two steers. He gave a savings account of \$200 as security and his parents co-signed the note. Dennis had good success with his steers and paid off the loan on October 10, 1958.

The 4-H representative on the board of directors instructed Dennis concerning the meaning of papers he was signing and his responsibilities. The 4-H representative and the FFA representatives had examined the plan for the project carefully, including the budget for the loan, and had approved Dennis as to character and ability. The county agent says that the conscientious study given the loan applications by this board is one of the most gratifying aspects of the Junior PCA and that it has served a very worthwhile purpose in the community.

Farmers Home Administration

The Farmers Home Administration frequently provides credit for 4-H Club members as a part of the loan made to their parents. The local supervisor has an opportunity and is expected to give the member some instruction on credit. Here is another personnel resource in the credit field awaiting fuller use in 4-H credit programs.

Special Loan Funds

In some States public minded people or business firms have set up special funds for loans to youth, usually as members of 4-H Clubs, FFA Chapters, or other youth organizations. In other situations the youth organizations have built up funds of their own out of gifts from individuals, from civic clubs or other organizations, from the group's own business activities, or from a combination of these.



Figure 5. Borrowing may start the member in a real farm enterprise.

These funds most commonly are handled by an adult committee representing the various local organizations supporting the work with youth. This committee receives applications and approves loans usually depending heavily on the guidance of extension agents or other professional workers. Sometimes a youth advisory committee is given considerable responsibility, particularly in reporting on the character of the applicant member.

Among the typically operated funds are: The New Jersey Junior Breeders Fund, The Lotta Crabtree Fund serving southern New England, The Sears Roebuck Fund in a number of States, The Cape Code 4-H Trust Fund for Barnstable County, Mass., and the 4-H Loan Fund in San Sebastian County, Puerto Rico.

Following customary credit procedures and standards in granting loans from these funds can provide worthwhile education. Such loans can include all the educational experiences that should be related to credit use with the exception of the vital individual contacts with a person in the lending business.

SOME SPECIAL PLANS FOR 4-H LOANS

A few unique features have been developed in making loans to 4-H club members. The

most widely used is the so-called "pig chain" which serves as a revolving fund for a number of years. With this the member receives an animal, usually a weanling pig or a bred gilt, instead of the money with which to make the purchase. At an appropriate time, usually 1 year later, he returns a comparable animal to be loaned to another 4-H'er. Sometimes the contract calls for him to return two for one if he succeeds in raising six or more pigs. Where bred gilts or sows are delivered as the loan, the member may be required to breed the female he returns to a special or an approved purebred boar. This plan has also been used successfully with sheep, goats, and chicks. By paying in kind the member avoids the risk of price changes.

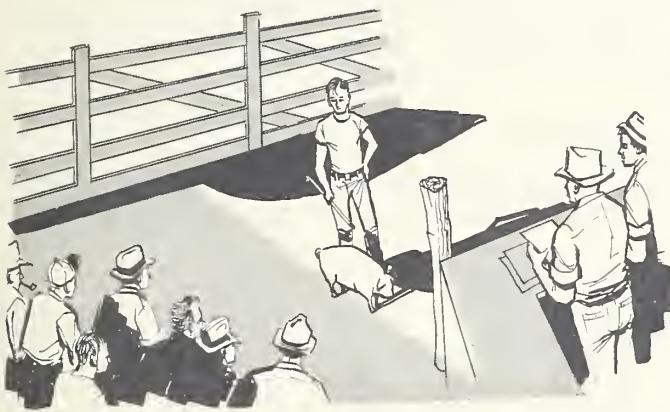


Figure 6. Some loans are paid in kind, a pig for a pig.

Financing dairy calves to grow into purebred cows calls for different treatment because of the $2\frac{1}{2}$ to 3 years that will elapse before income is received from the animal. One successful plan calls for the member to grow a cash crop from which he will make payments on this loan for each of the first 2 years. The final payment may come out of the sale of the first calf or of milk. With beef heifers for foundation breeding stock the member may borrow enough to purchase one or more steers. He will feed these along with the heifer, sell the fattened animals and from the receipts make payment on the loan.

OTHER WAYS TO TEACH 4-H'ERS ABOUT CREDIT

Three other plans have been fairly successfully used to teach 4-H members valuable lessons about credit.

Tours to lending agencies is the first. Many bankers when alerted beforehand will

welcome a reasonable number of older 4-H club members on a visit to the bank. They will be glad to tell about how the bank makes loans to farmers and other business men, and other interesting things about its operations. The same is true for the secretary at the production credit association, the national farm loan association or executive officer of other lending firms. Before such visits you should have a planning session with the 4-H'ers and follow up on the trips with a discussion of what was learned. This should include something about (1) why the lender is in business, (2) who owns the business, (3) where it gets the money that is loaned, and (4) how any net earnings are used.



Figure 7. Credit can be a live topic for a young folks discussion meeting.

Essay and public speaking award programs is the second. In this considerable reliance is placed on easily read printed materials put into the hands of the members. Speeches and essays that are winners in contests are usually based partly on the experience of the member and/or his family with use of loans, partly on the impressions gained in visits to lenders' places of business, and partly on what the contestant has gleaned from his readings.

The third plan is through use of several available films or other special materials at discussion group meetings. This is sometimes easier to do since you can take the films and other materials to the 4-H club group rather than members to the lender's office. Appropriate films are available from State bankers associations and from most of the Farm Credit Districts. Bank representatives and association secretaries, on invitation, often will be glad to discuss the services they provide at the times their films are shown. Members of Extension Economic staffs have worked with State 4-H Club and YMW staffs in preparing appropriate circulars and other materials.



Figure 8. Many bankers will welcome older 4-H Club members.

BEGINNING BUSINESS TRAINING

A 4-H credit project makes a natural beginning for members in the business side of farming. By getting a loan the 4-H club members can learn much about borrowing that will be of use to them in future years whether or not they farm. They often establish a good credit rating that they can use later. Then some of them begin to accumulate capital as a start in farming.

Commercial banks have been making loans to 4-H club members for more than 40 years, and PCA's from the time they were organized 25 years ago. Both these and other lenders are doing this because they believe it worthwhile, although the loans have to be handled for less than operating costs. They are genuinely interested in rendering a valuable service to youth. They often get an immediate return in good will and many have opened the way for profitable future business when the 4-H'ers became operating farmers. Their interest is a real challenge to both extension workers and voluntary 4-H club leaders.

MEANING OF SOME CREDIT TERMS

Application for loan. Request setting forth details as to who, what, when, where, why, and how for advancing and repaying the money.

Budget. A plan which sets up dates and amounts of expected receipts and expenses.

Chattel. Movable property like livestock, machinery, or household goods.

Co-signor. A person who signs another's promissory note thereby agreeing to pay if the debtor does not.

Credit rating. The reputation an individual or firm has for paying debts, sometimes specific as to highest amount he should be granted.

Due date. The time set in a note or other debt contract when the payment is to be made.

Financial progress. Gain in wealth usually measured by the difference between net worth statements at two dates.

Firm. An individual, partnership, corporation, cooperative, or estate conducting business.

Installment. Payment on a debt including an amount on the principal along with interest, usually fixed as to amount and time, most often at regular intervals.

Insurance policy. A contract to pay the insured a certain amount of money if he suffers a loss caused by the risk covered. Such as disease, accident, death, damage, or even weather.

Loan funds. Money, either cash or bank checking account that is controlled by a lender.

Mortgage. A written contract that gives a lender a right to possession and/or sale of property if a debt is not paid.

Net worth statement. Itemized statement listing what is owned with its estimated value and what is owed and showing what would be left after payment of all debts.

Procedures. Steps that are taken including filling out forms needed in a transaction.

Promissory note. A formal statement signed by a debtor promising to pay a specific amount on demand or on a fixed future date.

Security. Income prospect, co-signor, mortgage or other agreements that make a lender feel sure he will be paid.

Subsidiary. A business wholly owned or controlled by a parent firm.

Transaction. A business deal in which ownership of property is transferred.

AVAILABLE PUBLICATIONS

U. S. Department of Agriculture, Washington 25, D. C.

PA 275 Farm Family Business, A Guide for 4-H Club Leaders, 21pp.
F-2135 What Young Farm Families Should Know About Credit

Farm Credit Administration, Washington 25, D. C. or the Farm Credit Banks in Springfield, Mass., Baltimore, Md., Columbia, S. C., Louisville, Ky., New Orleans, La., St. Louis, Mo., St. Paul, Minn., Omaha, Nebr., Wichita, Kans., Houston, Texas, Berkeley, Calif., Spokane, Wash.

Circular 15 ABC's of Credit for the Farm Family, 19 pp.

Circular 16 Using Credit Instruments, 31 pp.

Circular E-31 Using Credit to Farm, 19 pp.

Circular E-41 Getting and Using Farm Credit, 23 pp.

State Universities and Colleges of Agriculture

Leaflet No. 220, Credit Guide for 4-H Club Members, August 1955, Univ. of Ark., Extension Service, Little Rock, Ark.

Leaflet 271, Using Credit in 4-H Demonstrations, 2 pp., Texas A. & M. College System, College Station, Texas.

YMW3 Sound and Wise Use of Agricultural Credit, 6 pp., Univ. of Ill. Urbana, Ill.

The American Bankers Association

12 East 36 Street, New York 16, N. Y.

You and Your Bank - How Commercial Banks Help Farmers, 30 pp.

Miscellaneous

The New Jersey Junior Breeder Fund, New Jersey Department of Agriculture, Trenton, N.J. Information on livestock insurance for 4-H members' animals. State Farm Bureaus.

FILMS FOR LOAN

Production Credit Association or National Farm Loan Association.

- (1) Production Credit Does the Job. 27 min.
- (2) Banking on the Land, 22 min.
- (3) What Is a Farm Worth. 19 min. Color
- (4) The Sign of Dependable Credit. 18 min.

The American Bankers Association offered through local banks.

One reel, 10-13 minutes, black and white.

- (1) Pay to the Order Of.
- (2) How Banks Serve.
- (3) Money Talks.
- (4) A Future to Bank On.
- (5) Using Bank Credit.
- (6) A Bone for Spotty.
- (7) How to Use Your Bank.
- (8) Future Unlimited.
- (9) Banking on Farmers. 2 reels, 18 mm., color or black and white.

